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C O N F I D E N T I A L SECTION 01 OF 03 PARIS 000400

SIPDIS

FOR THE VICE PRESIDENT FROM THE CHARGE

E.O. 12958: DECL: 03/18/19  
TAGS: PREL ECON OVIP FR  
SUBJECT: YOUR MEETING WITH FRENCH PRIME MINISTER  
FRANCOIS FILLON

Classified by Charge d'Affaires Mark A. Pekala,  
reasons 1.4 (b/d)

¶1. (C) Mr. Vice President: Prime Minister Fillon will focus on the economy, the financial crisis, and the G20 Summit during his March 22-23 visit to New York and Washington. The French are looking for assurance that the U.S. will continue to seek common ground in the G20 and avoid scoring domestic political points on the transatlantic relationship. We can make the same request of him. There is a tendency here to judge the performance of the U.S. - French relationship solely in terms of what we accomplish elsewhere in the world. We need to remind the Prime Minister that the U.S.- EU economic relationship is a centerpiece of our partnership, not an instrument for rallying domestic and European support for French policies.

¶2. (C) Prime Minister Fillon is the second most powerful political figure in France. What you say to him will have an effect and will reach President Sarkozy. The President of the Republic has aligned France with the United States strategically, and the political relationship is excellent even if there is more tension in the economic relationship. The protocol-conscious French are anxious to get off on the right foot with the new administration. Your meeting offers a good chance to stress our commitment to working with France on key strategic concerns and to encourage a responsible approach to economic relations, while setting the scene for the PresidentQs meeting with Sarkozy on April 3.

¶3. (C) This is Fillon's second visit to the United States as Prime Minister and will again focus on the economy, Fillon's primary responsibility in the government. He will want to know how the United States views relations with France developing, particularly on economic issues but also with respect to addressing global hot spots such as the Middle East, Iran, and Afghanistan. He arrives on the heels of a successful March 17 confidence vote in parliament on the governmentQs conduct of foreign policy, particularly NATO reintegration.

Worries about Trading Barbs on Crisis

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¶4. (C) The French are concerned about the tone in the United States of the dialogue on the crisis, including criticism of AIG's payments to French banks and the perceived stimulus-versus-regulation transatlantic divide, heightened by Paul Krugman's March 16 op-ed calling European crisis leadership "poor." On this side of the Atlantic, President Sarkozy, Fillon, Finance Minister Lagarde, and

others have made liberal use of the U.S. bogeyman in building domestic and European support for their economic policy positions in the G20 and elsewhere. This is an opportune time to underline that such posturing has costs and can be unhelpful in achieving consensus.

#### Fillon: An Economic Gaullist and Reformer

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¶15. (C) Fillon's view on economic policy is colored by a strong Gaullist streak -- the idea that even in market economies, the government has a strong role to play in managing economic development. This is a trait he shares with his boss. Fillon told a January conference on the future of capitalism that he sees the State as arbiter between the "demands of the long-term and the fluctuations of the short-term." France's high-speed trains and nuclear power networks evolved from strategic decisions taken by a small circle of actors in "great confidentiality" and are now among France's crown jewels. Gaullism, he said, is the "synthesis between economic efficiency, capitalism and social justice ... a 'certain idea' of the human condition confronted with the destructive forces of history." Despite the Gaullist conceit, Fillon has pressed forward with a reform agenda that has loosened strictures on French markets.

#### G20 and Beyond

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¶16. (C) This world view will inform his articulation of French G20 priorities in Washington. The PM will press French positions calling for stronger regulation of "tax havens," the need for anti-cyclical remuneration models in the financial sector, and assurances that all financial institutions posing potentially systemic risks for the global financial system (notably hedge funds) are regulated. He may probe for the latest U.S. thinking on trade policy. The French sense an opening for their notion of "societal preferences" (replacing science-based standards with value-based, political decisions) as a building block of the multilateral trade regime in U.S. expressions of support for including environmental and labor standards in trade agreements.

#### Domestic Pressure on the Economy

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¶17. (C) Fillon arrives in Washington in the wake of a March 19 general strike in France designed partly to pressure the government to enact demand-side measures to boost employment and real wages. The French economy has been less affected by the crisis than other G7 partners -- thanks in part to the weight of public sector spending and limited household indebtedness that has kept consumer spending afloat. But a strong January downturn in employment and a series of high-profile plant closings have ratcheted up political pressure. The GOF is resisting calls to do more, and has said instead that it will press forward with its domestic reform agenda.

¶18. (C) In addition to measures to recapitalize banks and keep credit flowing to business, French stimulus efforts include a 26 billion euro (USD 33.8 billion) package of investment spending and accelerated tax rebates announced in December and 2.6 billion euros (USD 3.4 billion) in "social

measures" (such as tax cuts and increases in unemployment benefits) announced in February. These come on top of heavy automatic stabilizers that are a result of France's generous welfare payments (roughly 2 percent of GDP in 2009, according to the IMF). With public debt expected to grow to nearly 80 percent of GDP, the French see little room for further stimulus measures and have joined the Germans in resisting calls for Europe to do more. Finance Minister Lagarde told the press March 13 that European efforts amount to 3.3 percent of GDP (including automatic stabilizers), or 400 billion euros (USD 520 billion), and that "there will not be a supplementary European stimulus on April 2."

The Prime Minister and Foreign Policy

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¶9. (C) Traditionally France's Prime Minister takes a back seat to the President on foreign policy, and under the energetic Sarkozy the equation has been no different. But Fillon has played a critical role in defending Sarkozy's security policies before an occasionally recalcitrant National Assembly, notably during the recent debate on NATO reintegration as well as previously on Afghanistan. Fillon will be keen to hear your views on the U.S. plans for Afghanistan, where France has some 3,000 troops deployed (and has sustained 26 combat deaths since 2002). You can express appreciation for France's continued engagement and sacrifice and also encourage an increased civilian and military commitment to help bring stability to the region -- notably to help provide a secure environment for the August presidential elections. With respect to the Middle East, President Sarkozy has called for a peace summit as early as this spring, but his aides have quietly told us they recognize such plans are premature. Fillon may ask about how the United States will respond to a Palestinian unity government; the French are inclined to support any deal that PA President Abbas can strike. Meanwhile, against this backdrop, how the new administration will approach Iran and Russia is of major interest in Paris.

Fillon: Racecars, Facebook, and the Future

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¶10. (C) Fillon has been a steady helmsman for the occasionally impulsive President Sarkozy. After keeping a low profile in the early days of the presidency -- many referred to him as chief of staff to a president who was everywhere, on every issue -- Fillon has consistently outpolled the President over the past 18 months. His current approval rating is about 50 percent. He is a pragmatist who in meetings focuses on results, not bombast or intellectual needling. He is a media-savvy auto racing enthusiast who maintains an active Facebook page. Rumors of clashes between the President and Prime Minister have regularly stoked speculation over Fillon's being sacked. But the two appear to have found a modus vivendi, presumably in part because the President recognizes that the PM's low-key, drama-free style serves him well politically. Nonetheless, one of President Sarkozy's close informal advisors told us to expect Fillon's exit within a year as part of the French political kabuki to convince the electorate things have not gone stale mid-mandate. Of late, Fillon's name has been raised as a possible successor to Jose Manuel Barroso at the head of the European Commission. While he may depart the administration before 2010,

Fillon is a durable political heavyweight, one of the few viable figures on the right who could someday ascend to the French Presidency.

PEKALA